

The Impact of Small and Medium Enterprises (SMEs) on Economic Growth and Job Creation in Somalia

Küçük ve Orta Ölçekli İşletmelerin (KOBİ'ler) Somali'deki Ekonomik Büyüme ve İstihdam Yaratılmasına Etkisi

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ABSTRACT

Entrepreneurship is crucial to raising the standard of living and promoting the development of the economy. Small and medium-sized enterprises are recognized as solutions for economic growth, modernization, job creation, and income generation. The focus of this study is on how SMEs can contribute to job creation and economic growth in Somalia. This study uses a descriptive research design and a quantitative approach to gain insight into variables. A sample size of 201 participants was chosen and determined using a method of purposive or judgmental sampling. The researcher developed the questionnaire as a data collection tool which was collected using a Google forms Survey program, then edited, collated and tabulated using SPSS -statistical computer software- Version 22 and Excel 2010. Finally researchers corrected certain mistakes and anomalies to improve validity and reliability. Our study found that lack of funding, poor management skills and certain government policies are key barriers for small and medium-sized enterprises in Somalia. Our study also indicated that countries' poor policies on imported products, humanitarian aid and unregulated competition have a negative effect on developing small and medium enterprises in the region. In this study concluded that providing access to finance through banks and large companies, giving enough knowledge and skills and introducing effective policies for the growth of small and medium enterprises by the government will enhance small and medium enterprises in Somalia.

Keywords: Small and Medium enterprises, Job creation, Economic growth, Access to capital Somalia

Jel Code: J21, O12, H81, G24



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ÖZ

Girişimcilik, insanların yaşam standardını yükseltmek ve ekonominin gelişmesini teşvik etmek için çok önemlidir. Küçük ve orta ölçekli işletmeler, ekonomik büyüme, modernizasyon ve istihdam yaratma, gelir yaratma için çözümler olarak kabul edilmektedir. Çalışmanın odak noktası, Küçük ve orta ölçekli işletmelerin Somali'de istihdam yaratılmasına ve ekonomik büyümeye nasıl katkıda bulunabileceğidir. Çalışmada, değişkenler hakkında fikir edinmek için nicel bir yaklaşım kullanan tanımlayıcı bir araştırma tasarımı kullanılmıştır. Bir amaçlı veya yargısal örnekleme yöntemi kullanılarak 201 örnek boyutu seçilmiştir. Veri toplama aracı olarak, Google formlar anket programı kullanılmıştır. Veriler, SPSS - istatistik bilgisayar yazılımı- Sürüm 22 ve Excel 2010 kullanılarak düzenlenmiş, harmanlanmış ve tablo haline getirilmiştir. Son olarak, araştırmacılar, geçerliliği ve güvenilirliği artırmak için belirli hataları ve anormallikleri yeniden düzeltmiştir. Çalışmada Somali'deki küçük ve orta ölçekli işletmeler için finansman eksikliği, yönetim becerileri ve başarılı hükümet politikalarının temel engeller olduğu bulunmuştur. Çalışma, aynı zamanda ülkelerin ithal ürünler, insani yardım ve düzensiz rekabet konusundaki zayıf politikalarının bölgedeki küçük ve orta ölçekli işletmelerin gelişmesini olumsuz etkilediğini de göstermiştir. Araştırmada, bankalar ve büyük şirketler aracılığıyla finansmana erişim sağlamanın, yeterli bilgi ve beceriyi sağlamanın ve hükümet tarafından küçük ve orta ölçekli işletmelerin büyümesi için etkili politikalar getirmenin Somali'deki küçük ve orta ölçekli işletmeleri geliştireceği sonucuna ulaşılmıştır.

Anahtar kelimeler: Küçük ve orta ölçekli işletmeler, İstihdam yaratma, Ekonomik büyüme, Finansmana erişim, Somali
Jel Code: J21, O12, H81, G24

1. Introduction

Both developed and developing countries have the pursuit of economic growth and superiority in common. Some scholars have tried to determine issues such as bad infrastructure, poor capital development, and a weak institutional system, as some of the factors responsible for the slowdown of developing nations. New theories from evidenced based and academic studies have shown that the economic miracle needed by third world countries is embedded in the entrepreneurship factor (Oluatase, 2014).

Since small and medium-sized enterprises are very crucial for the development of any economy and serve as catalysts for economic development, countries seeking sustainable growth in their economies must pay close attention to the small and medium-sized enterprises sector and integrate the potential to generate jobs, promote local technology, diversify production, build indigenous entrepreneurship and integrate with large-scale industries that can be provided by the sector (Aruwa & Suleiman, 2004).

Studies have found that the promotion of entrepreneurship is crucial to raising the standard of living and promoting the development of the economy. Adeusi and Aluko, (2014) stated that entrepreneurship must be adopted in order to reduce the rising level of poverty. The SME sector is seen broadly as a significant engine of economic growth and job development in both developing and developed countries and is the largest business sector in any global economy (Ariyo, 2008; Storey, 2016). Farouk and Saleh (2011) also added that

SMEs are contributing to job creation at a faster pace than larger companies, so governments across the globe are increasingly promoting and endorsing the growth of SMEs as part of their overall national development policy (Culkin & Smith, 2000).

Somali is one of the least economically developed countries and has one of the highest rates of unemployment in the world. However, due to prolonged civil instability and lack of institutions, the preparation and development of both human and financial resources has been insufficient. Studies confirm that small and medium-sized companies have had an impact on the economic development of developing countries such as Somalia, but sadly, on the contrary, Somalis are overwhelmed by the follow-up of humanitarian assistance from developed countries. According to Idris (2016) well-managed humanitarian aid can have a tremendous positive effect on the economy, including promoting local business regeneration, job creation and rising government tax revenue, but on the other hand, it can cause price inflation, decreased supply of goods and weaken local businesses – even contributing to closures.

According to Somali Humanitarian Fund (SHF) reports, Somalia receives millions of dollars per year from donors, either in cash or in kind, but due to mismanagement and lack of priorities, these funds, instead of improving Somalia's economic status are undermining it. In order to benefit from these huge sums, funds can be allocated for infrastructure construction, job creation and funding for small businesses. According to Randa, Whimp, Abdullahi and Zacchia, (2015), the 2015 World Bank study, 70% of Somalis under the age of 30 and two-thirds of Somalis between the ages of 14 and 29 are unemployed; thus, investing in small and medium-sized enterprises will improve job growth, security and living standards. Dalmar, Ali, and Ali, (2017) also recommended that the government consider policies that promote foreign debt and use it to create more local investment.

Agriculture contributes a large share to the sub-Saharan African economy, and the majority of the population generates their livelihoods from this sector, but in fact it is only shifting slowly with well below potential yields. Failures in agricultural policies, weak institutions and poor governance are at the root of growth inactivity. Gashu, Demment and Stoecker (2019) proposed that substantial expenditure, innovative creativity and policy changes are crucial. In Somalia, agriculture (including livestock) is the backbone of the economy, accounting for more than 90 per cent of the country's total exports, 60 per cent of its GDP and employing more than 80 per cent of its population (Pyrtel, 2012). According to Iftin Foundation's country graduate survey, Somalia produced 14,971 and 15,927 university graduates in 2018 and 2019, respectively, but the distribution of students across faculties shows that 2.3% graduated with degrees in agriculture, so investing in SMEs, especially those related to agriculture, will be a life changer to the Somali youth.

This study will focus on the importance of small and medium-sized enterprises to the Somali population, in particular to young people, job development, economic growth, the ability of young people to access finance from banks or government institutions, and the overall challenges of small and medium-sized enterprises in the country.

2. Literature Review

2.1. Job Creation

Small and medium-sized enterprises (SMEs) are recognized as solutions for economic growth, modernization, job creation, income generation and scientific advancement in most advanced economies (Acs & Audretsch, 1990; Bhutta, Rana & Asad, 2008). As Kadiri (2012) suggested, the term “small and medium-sized enterprises” in the business world is well accepted because this sector acts as a tool for job growth, country-wide development, poverty reduction and economic development. Small and medium-sized businesses have more job opportunities than big companies and multinational firms.

Small and medium-sized enterprises play a crucial role in poverty reduction, social growth and economic development. By creating successful industrial enterprises, economic progress will be achieved which will generate job opportunities for the general public in the society in which it operates. Job opportunities would raise people’s disposable income, which will generate demand for commodities and services and ultimately purchase products on demand. This revenue would also raise living standards and minimize poverty (Al-Haddad et al., 2019). The contribution of SMEs to the growth of employment in the EU during the period 2002 to 2010 increased by an average of 1.1 million workers per year, which is equal to 0.9% per year. In total, 0.9 million jobs were generated annually by SMEs, which is 85 per cent of the total increase (De Kok et al., 2011).

2.2. Economic Development

Entrepreneurship is seen as one of the strongest determinants of local economic strength. Small and medium-sized enterprises (SMEs) have played a critical role in the economic growth of both underdeveloped and developed countries. Small and medium-sized enterprises (SMEs) are, in particular, the engines that drive economic growth. Businesses account for almost 90% of enterprises in both the leading and developing economies through job formation, jobs, tax provision and a contribution to the Gross Domestic Product (Muriithi, 2017). While local output is poor, the strength of new and small firms is a key component of local competitiveness and therefore affects the country’s economic performance.

In the developing world, small and medium-sized companies are one of the biggest economic boosters, with SMEs accounting for 51% of US GDP and 25% of UK GDP (Burns,

2016; Longenecker, Moore, Petty & Palich, 2005). Like the United States and the United Kingdom, SMEs contribute 80% of urban jobs and 60% of GDP to China (Sham & Pang, 2014). Studies in Africa confirm that SMEs contribute about 50% of GDP (Kamunge, Njeru & Tirimba, 2014). For example, in Kenya, SMEs contribute 40% of GDP, 70% of Nigeria's industrial jobs and 70% of Ghana's total workforce (Muriithi, 2017; Mwarari & Ngugi, 2013). In Sub-Saharan Africa, as Kauffmann (2005) stated, due to SMEs simple approach in responding to the majority of African needs by providing affordable goods and services on fair terms and prices, a source of income and jobs has become available to the sector.

2.3. Access to Capital

Small and medium-sized enterprises are an economic field that makes a major contribution to economic development and job creation. However, they also face considerable difficulties in obtaining the types of funding they need for growth (Pissarides, 1999). Finance plays a crucial role in the growth of entrepreneurship and small and medium-sized enterprises (SMEs). Favorable conditions therefore provide the basis for the survival, growth and competitiveness of the creation of entrepreneurship (Lawal, Iyiola & Adegbuyi, 2018). Availability and access to sufficient and sustainable financing are essential for entrepreneurs and small and medium-sized enterprises in view of the fact that the business life cycle requires a wide range of cash needs right from the start and also during the growth and transformation phases of development. In order to develop and maintain small and medium-sized enterprises, an entrepreneur needs to have access to a variety of resources, such as financial capital, human capital and physical capital, each of which plays a significant role in the life cycle of a new business (Fatoki, 2014), but it is a major challenge for small and medium-sized enterprises to have access to finance, especially new, innovative and fast-growing enterprises.

Bank financing is crucial to the functioning of the economy as it is an important source of funding to support the growth of small and medium-sized enterprises. However, banks and financial institutions are hesitant to provide credit to the SME sector due to the possibility of early-stage projects with inadequate funds, lack of established track record and low capitalization (Berger & Udell, 2006; Fredriksson & Moro, 2014; Menkhoff, Neuberger & Rungruxsirivorn, 2012). As a result, they do not regard such businesses as viable enterprises. In other words, they do not see a worthwhile return on investment by small and medium-sized businesses or whether such investment will have a possible pay-off.

As the study by Ali, Abu-Hadi and Ali (2013) found, access to microfinance services in Mogadishu could be considered a challenge for small businesses due to the high security requirements that Microfinance Institutions (MFIs) can impose.

2.4. Challenges on SMEs

There is no doubt that small and medium-sized enterprises play a major role in the growth of the economy. On the other hand, however, the rate of failure of small and medium-sized enterprises is troubling for both developing and developed countries. Several studies have shown that approximately 80-90% of SMEs fail within 5-10 years (Ahmad, Abdul Rani & Mohd Kassim, 2010; Kuratko & Hodgetts, 2004).

Small and medium-sized business owners face challenges related to evolving economies, a diverse array of technology, expertise and resource shortages (Gummesson, 1994). Small and medium-sized enterprises are important for the growth and development of the economy as well as for the generation of jobs. Small and medium-sized enterprises require accurate management to grow in the world economy. Entrepreneurship successes will illustrate how poverty levels can be minimized and how people's lives in the world's immature economies can be improved.

In order to compete internationally and for their rapid growth, small and medium-sized enterprises need managerial talent to overcome their depressive condition and reach a more competent level (Al-Haddad et al., 2019). Studies also show that political uncertainty, lack of intellectual resources and infrastructure, fear of authority and weakness of government police forces are another problem for small and medium-sized enterprises (Khalique, Isa & Nassir Shaari, 2011).

This study focuses on the role of small and medium-sized enterprises in the field of employment and economic development in Somalia. This research is beneficial to all stakeholders, as the current study will help to develop policies and strategies for small and medium-sized enterprises to generate jobs and economic development opportunities.

3. Methods And Materials

The study used a descriptive research design within the framework of a quantitative approach to gain insight into variables. The study focused on entrepreneurs and young people living in Mogadishu. The potential scope being very broad, a sample size of 201 people was chosen and determined using the Purposive or Judgmental Sampling method. Judgmental Sampling is a non-probability technique in which the researcher uses his judgment to decide from among the population which members he thinks could provide the requested or correct information (Etikan & Bala, 2017). In addition, the technique is often widely considered to obtain a high degree of validity and reliability as well as to eradicate bias.

The researcher developed a questionnaire as a data collection tool. The key reasons for selecting a data collection questionnaire are that it is inexpensive, saves time, and allows

respondents to remain anonymous and to be truthful in providing their answers, making it easier to gather the relevant information. In order to consider any possible errors in the questionnaire and to work out the time needed to complete it, the researcher applied a pre-test. Pre-testing means testing the questionnaire to see if the questions therein are applicable or not. Pre-testing is performed by a limited group of respondents to exclude unnecessary questions from the questionnaire. According to Roberts-Lombard (2002) questionnaires should be tested from all sides such as the wording of questions, series of questions as well as the design of questions. The questionnaire was divided into two sections: part (A) Profile of the respondents, and Part (B) Study questions. The format of the questionnaire design was that of a closed-end questionnaire. The data for this research was collected using a Google forms Survey program, then edited, collated and tabulated Using SPSS statistical computer software Version 22 and Excel 2010. Finally researchers corrected certain mistakes and anomalies to improve validity and reliability.

4. Results and Discussion

4.1. Demographic Results

This section focuses on the demographics of our study participants such as gender, age, education fields and income levels. This is important as it shows the data were collected from the most related people. The obtained data show that our questionnaire reached almost the perfect candidates for such a study.

Figure 1. Gender

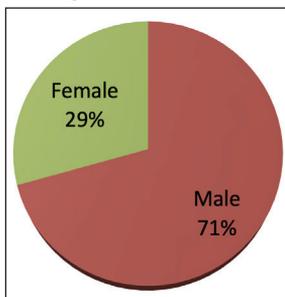
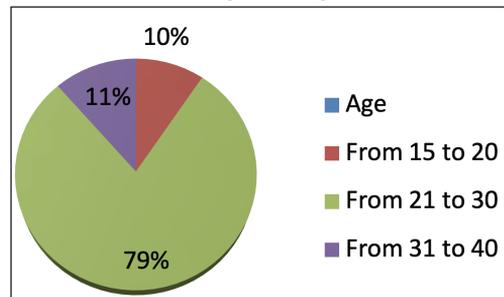


Figure 2. Age



According to Figure 1, males dominated the study at 71%, whereas females constituted the remaining 29%. This is justified as in Somalia the male gender mainly dominates education, workforce and different aspects of life. On the other hand, Figure 2 shows that the age of most of our respondents ranged from 21-30 years, as the study mainly focused on the youth because they mostly face unemployment problems and they are important for the growth of the country's economy.

Figure 3. Education Level

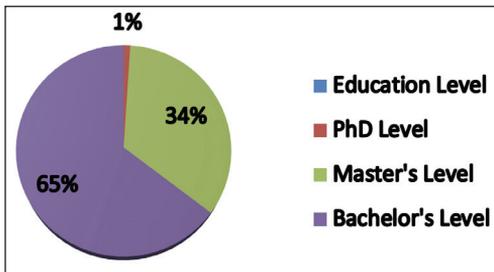
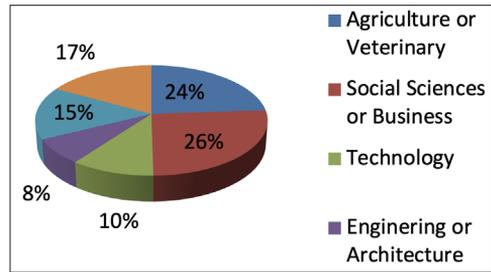


Figure 4. Field of Education



According to IFTIN foundation’s country graduates survey, the number of university graduates in Somalia in 2018 was 14,971, a number which rose to 15,927 in 2019. This is why our study centered on young people in the first and second grades of their education. To know what they think about what small and medium-sized enterprises can offer in the face of widespread unemployment and under development in the country, we distributed our questionnaire to different fields of education in order to get the best answers to our study questions.

Figure 5. Education Level

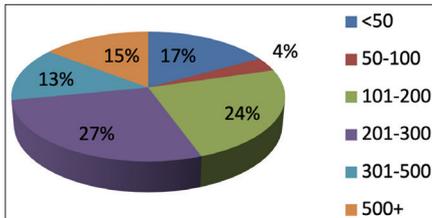
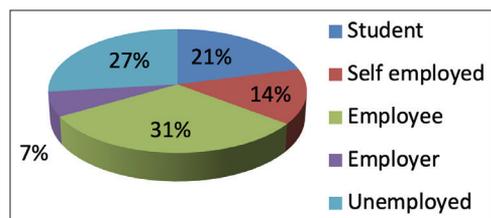


Figure 6. Field of Education



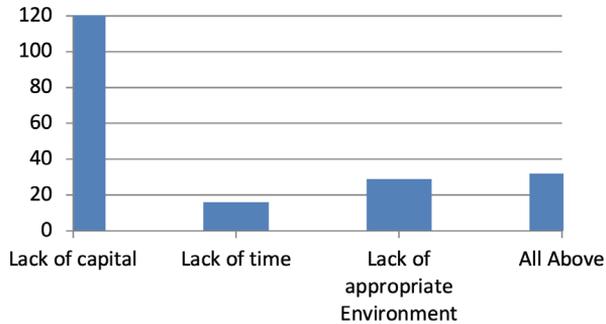
Results shown that Approximately half of the participants were either students or unemployed, with 45% of the participants having an income of less than \$200. This indicates the low income rate of the youth which may prevent them from making any other developments.

4.2. Study Results

The following section shows the results of the research questions giving the opinions of respondents on the constraints of and barriers to small and medium-sized enterprises. These results will be of benefit to Somalia if small and medium-sized enterprises are encouraged, and they show whether small and medium-sized enterprises will help the struggling economy and stem the rising unemployment rate. They also show what stakeholders can do to develop small and medium-sized enterprises.

Figure 7. Challenges of SMEs in Somalia

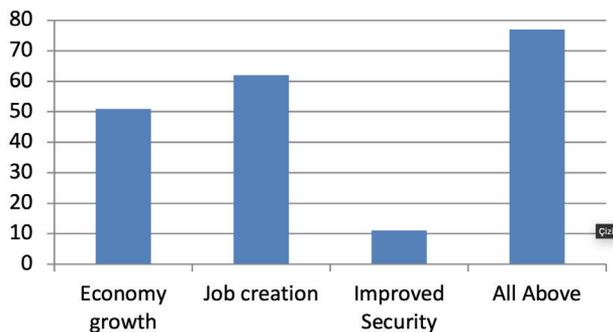
What is stopping you from implementing your business idea?



Studies confirm that the lack of funding and financial access is one of the key constraints of small and medium-sized enterprises (Singh & Belwal, 2008). Most of the answers to our questions suggest that our respondents were keen to set up their own businesses, but lack of capital was the biggest obstacle to the establishment of their own enterprises.

Figure 8. What SMEs can bring to Somalia

What can SMEs bring to Somalia?



Small and medium enterprises are well known for their role in boosting economic growth and job creation, and studies also confirm how small and medium enterprises are critical for economic development, especially in developing countries. Our respondents also noted that small and medium-sized enterprises could contribute to economic growth and job development.

The skills and capabilities of business owners are important to the success or failure of small and medium-sized enterprises. Entrepreneurs also face difficulties due to lack of

expertise, skills or a supportive social network (Marshall & Oliver, 2005). Lack of education (a subset of human capital) and preparation is the key cause of failure for new SMEs in South Africa (Herrington, Kew & Kew, 2009). Martin and Staines (2008) also find that lack of management knowledge, expertise and personal attributes are the key reasons for the failure of new companies. Similarly, our study shows that lack of management skills is one of the main obstacles for new entrepreneurs in Somalia.

Our respondents argue that the government, banks and large corporations should take responsibility for supporting small and medium-sized enterprises. Small and medium enterprises need assistance from good government policies that enhance the growth of small and medium enterprises. Financial access, expertise and skills from banks and large companies will increase the chances of a business revolution. Entrepreneurs face difficulties from banks and big companies in obtaining loans, as well as in investing or financing. Respondents confirm that banks and large corporations are asking SMEs to bring IDs, guarantors or mortgages to get loans or financing.

5. Conclusion

Entrepreneurship is essential to the survival of the Somali people. As one of the poorest countries in the world, Somalis need to concentrate more on developing small enterprises to stop relying on foreign aid. The best way to tackle economic decline, weak security and increased unemployment is to set up more small and medium enterprises, particularly for young people. Our data showed that support for small and medium enterprises could enhance the economy of the country and create more employment.

As many of our study respondents said, lack of funding, poor management skills and certain government policies are key barriers for small and medium-sized enterprises in Somalia. Our study found that countries' poor policies on imported products, humanitarian aid and unregulated competition have a negative effect on developing small and medium-sized enterprises in the region.

Respondents agree that providing access to finance through banks and large companies and introducing effective policies for the growth of small and medium-sized enterprises by the government will enhance SMEs in Somalia. Another issue raised by the respondents is that providing young people with enough skills and knowledge would be part of their ability to create a better future for themselves, their families and the entire country.

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